

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;
Michael Kubayanda, Vice Chairman;
Mark Acton;
Ann C. Fisher; and
Ashley Poling

Periodic Reporting
(Proposal Three)

Docket No. RM2019-8

ORDER ON ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSAL THREE)

(Issued October 7, 2019)

I. INTRODUCTION

On July 9, 2019, the Postal Service filed a petition pursuant to 39 C.F.R. § 3050.11, requesting that the Commission initiate a rulemaking proceeding to consider changes to the analytical methods approved for use in periodic reporting.¹ Proposal Three seeks to revise the costing methodology for the distribution of PRIME enhanced payments. Under the current methodology, the PRIME costs are distributed entirely to First-Class Package International Service (FCPIS). Proposal Three distributes PRIME costs to the specific products that incur them, including Commercial e-Packets (CEPK),

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Three), July 9, 2019, at 1 (Petition). The proposal is attached to the Petition (Proposal Three).

International Priority Airmail Packets (IPA_E), and Negotiated Service Agreement (NSA) and non-NSA FCPIS. For the reasons discussed below, the Commission approves Proposal Three.

II. PROCEDURAL HISTORY

On July 10, 2019, the Commission issued a notice initiating this proceeding, providing for the submission of comments, and appointing a Public Representative.² Chairman's Information Request No. 1 was issued on August 7, 2019.³ The Postal Service responded to CHIR No. 1 on August 15, 2019.⁴ The Public Representative filed comments on August 19, 2019.⁵

III. BACKGROUND

Proposal Three relates to the methodology used to distribute enhanced payments made under the PRIME agreement. Petition, Proposal Three at 1. PRIME is an international agreement among approximately 141 designated postal operators working together in the tracked packet area. *Id.* n.1. Under PRIME, designated postal operators provide each other with enhanced payments, in addition to the basic per item payment, for the timely return of scans. *Id.* The Postal Service accounts for these enhanced payments to other operators as settlement costs ("PRIME costs"). Petition, Proposal Three at 3.

The Postal Service used a new methodology to distribute these PRIME costs in its most recent International Cost and Revenue Analysis (ICRA).⁶ In the FY 2018

² Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Three), July 10, 2019 (Order No. 5145).

³ Chairman's Information Request No. 1, August 7, 2019 (CHIR No. 1).

⁴ Responses of the United States Postal Service to Questions 1-8 of Chairman's Information Request No. 1, August 15, 2019 (Response to CHIR No. 1).

⁵ Public Representative Comments, August 19, 2019 (PR Comments).

⁶ Docket No. ACR2018, Library Reference USPS-FY18-NP2 - FY 2018 International Cost and Revenue Analysis (ICRA) Report (Revised 2/11/19), February 11, 2019.

Annual Compliance Determination, the Commission accepted the Postal Service's distribution of the PRIME costs but determined that the Postal Service's revised methodology "must be thoroughly reviewed by the Commission and stakeholders through a docketed proceeding before it can be used in future ACRs."⁷ Accordingly, the Commission directed "the Postal Service to file a petition for the initiation of a proceeding to review this proposed change in analytical principles within 90 days" of the issuance of the FY 2018 ACD. *Id.*

IV. PROPOSAL THREE

Proposal Three seeks to revise the methodology used to distribute PRIME costs. Under the existing methodology, PRIME costs for countries other than Canada are treated as an "indistinguishable aggregate" and are distributed entirely to FCPIS. Petition, Proposal Three at 1.

The Postal Service reports that, with the addition of the "UX" key in the System for International Revenue and Volume, Outbound (SIRVO), it is now possible to distribute PRIME costs to pieces that incurred them. *Id.* To accomplish this, the number of FCPIS, CEPK, and IPA_E pieces with the "UX" key are assembled from SIRVO by destination country. Then, the PRIME costs are distributed based on the shares of FCPIS, CEPK, and IPA_E pieces in respective destination countries.⁸ The CEPK and IPA_E mailpieces with the "UX" key are entirely NSA mail. However, the FCPIS pieces with the "UX" key consist of both NSA and non-NSA mailpieces and, therefore, FCPIS PRIME costs are further disaggregated into NSA and non-NSA components. Petition, Proposal Three at 3.

Distribution of FCPIS PRIME costs. The ICRA proper performs calculations by country and by calendar year (CY). PRIME costs are incurred on a fiscal year basis

⁷ Docket No. ACR2018, Annual Compliance Determination, April 12, 2019, at 105 (FY 2018 ACD).

⁸ *Id.* at 3. Docket No. ACR2018, Library Reference USPS-FY18-NP2 - FY 2018 International Cost and Revenue Analysis (ICRA) Report (Revised 2/11/19).

and need to be further separated into CY1 and CY2 portions. The separation into CY1 and CY2 portions is based on an assumption that CY1 represents one quarter of the fiscal year and CY2 represents three quarters of the fiscal year. PRIME costs for non-NSA FCPIS separated by CY are converted into U.S. dollars using the applicable exchange rate between the U.S. dollar and Special Drawing Right (SDR)⁹ and added to the non-NSA FCPIS settlement costs in the ICRA.¹⁰

The International Costing Module (ICM) performs calculations at a pricing rate group level and does not distinguish between CY1 and CY2. To facilitate the adjustment of the settlement cost of NSA FCPIS mailpieces, the NSA and non-NSA FCPIS PRIME costs are aggregated into FCPIS pricing rate groups and divided by applicable NSA and non-NSA FCPIS volumes in each rate group. *See id.*

The resulting PRIME unit costs in SDR are converted to U.S. dollars using the applicable exchange rate between the U.S. dollar and SDR. The PRIME unit cost of non-NSA FCPIS pieces is deducted from the PRIME unit cost of NSA FCPIS pieces in each pricing rate group. The difference represents the amount by which non-NSA unit settlement cost in each rate group needs to be adjusted, prior to transfer to ICM for costing of NSA FCPIS mailpieces. *See id.*

Distribution of CEPK and IPA_E PRIME costs. All CEPK and IPA_E PRIME costs are for NSA mail. The PRIME costs for CEPK and IPA_E pieces are aggregated into IPA pricing rate groups. The aggregated CEPK and IPA_E PRIME costs are then divided by respective rate groups' CEPK and IPA_E NSA volumes. The resulting PRIME unit cost of both mail categories is converted to U.S. dollars using the applicable exchange rate between the U.S. dollar and SDR. The applicable IPA unit settlement

⁹ A SDR is a reserve asset that the International Monetary Fund (IMF) created to serve as a unit of account for the IMF and some international organizations, including the Universal Postal Union (UPU). Its value is based on a basket of five major currencies: the U.S. dollar, the Euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.

¹⁰ See Docket No. ACR2018, Library Reference USPS-FY18-NP2 - FY 2018 International Cost and Revenue Analysis (ICRA) Report (Revised 2/11/19).

cost that is adjusted with PRIME unit costs of CEPK and IPA_E prior to their inclusion in the ICM is the subject of Proposal Four.¹¹

Trial Balance Account. Settlement costs of a product include terminal dues, air conveyance, and surface transit payments to foreign postal operators for the delivery of mail that originated in the United States. PRIME enhanced payments are included in settlement costs. The settlement costs of FCPIs and other products, such as IPA, First-Class Mail International, International Direct Sacks -- M-Bags, and Priority Mail Express International are summed in Trial Balance Account 53299. Under Proposal Three, settlement costs of NSA and non-NSA FCPIs are reduced, resulting in an offsetting increase in the settlement costs of the other products associated with Trial Balance Account 53299.¹² The Postal Service states that “costs are shifted away from First-Class Package International Service to Outbound Single-Piece First-Class Mail, Priority Mail Express International, International Priority Airmail (IPA), International Direct Sacks -- M-Bags, and associated Outbound Negotiated Service Agreements.” Petition, Proposal Three at 4.

V. COMMENTS

The Commission received comments from the Public Representative. No other interested party filed comments. The Public Representative concludes that Proposal Three “improves the accuracy of the Postal Service’s periodic reporting.” PR Comments at 2. She “supports Proposal Three and recommends its approval.” *Id.* at 3.

¹¹ See Docket No. RM2019-9, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Four), July 9, 2019 (Petition). The proposal is attached to the Petition (Proposal Four).

¹² Docket No. ACR2018, Responses of the United States Postal Service to Questions 1-10 of Chairman’s Information Request No. 14, question 5(b), February 22, 2019.

VI. COMMISSION ANALYSIS

Based upon a review of the Petition, Proposal Three, the supporting workpapers, the Response to CHIR No. 1, and the Public Representative's comments, the Commission approves Proposal Three. Proposal Three improves the Postal Service's costing methodology by more accurately distributing the costs associated with PRIME enhanced payments. Unlike the existing methodology, which allocates all PRIME costs to non-NSA FCPIS, Proposal Three allocates the PRIME costs across products and between NSA and non-NSA FCPIS.

Consequently, Proposal Three more accurately estimates the settlement costs of NSA FCPIS. The current methodology allocates all PRIME costs to non-NSA FCPIS and subsequently transfers the associated unit settlement cost "to the ICM Costing Module for modeling the costs of the NSA mail."¹³ In other words, NSA FCPIS settlement costs are calculated using non-NSA FCPIS cost data. However, the distribution of PRIME costs under the proposed methodology suggests that the unit PRIME costs of NSA pieces are generally lower than those of non-NSA FCPIS pieces. The proposed methodology adjusts the unit settlement costs of non-NSA FCPIS accordingly, before their transfer to the ICM for NSA mail costing. This result is a more accurate estimate of settlement costs of NSA FCPIS.

Proposed changes to analytical principles are evaluated to ensure that they "improve the quality, accuracy, or completeness of the data or analysis of data" contained in the Postal Service's periodic reports. 39 C.F.R. § 3050.11(a). Proposal Three improves the accuracy of the Postal Service's data by attributing PRIME costs to the pieces that incurred them instead of attributing all PRIME costs to non-NSA FCPIS. Furthermore, Proposal Three more accurately estimates the settlement costs of First-Class Package International Service, Single-Piece First-Class Mail, Priority Mail Express International, International Priority Airmail, International Direct Sacks -- M-

¹³ Docket No. ACR2018, Library Reference USPS-FY18-NP2 - FY 2018 International Cost and Revenue Analysis (ICRA) Report (Revised 2/11/19).

Bags, and associated Outbound Negotiated Service Agreements. Accordingly, the Commission approves Proposal Three.

VII. ORDERING PARAGRAPH

It is ordered:

For purposes of periodic reporting to the Commission, the changes in analytical principles proposed by the Postal Service in Proposal Three are approved.

By the Commission.

Darcie S. Tokioka
Acting Secretary